

**STATE OF WASHINGTON
STATE INVESTMENT BOARD**

Public Markets Committee Meeting
Minutes

January 13, 2004

The Public Markets Committee met in open public session at 9:01 A.M. at the Washington State Investment Board (WSIB) office at 2100 Evergreen Park Drive Southwest, Olympia, Washington.

Members Present: Glenn Gorton, Chair
Jeff Hanna
Charles Kaminski
John Magnuson
Paul Trause

Members Absent: Michael Murphy
Robert Nakahara
Dave Scott
Representative Sommers

Other Board Members Present: George Masten

Others Present: Joe Dear, Executive Director
Gary Bruebaker, Chief Investment Officer
Nancy Calkins, Senior Investment Officer – Public Equity
David Thatcher, Contract Specialist
Kristi Bromley, Administrative Assistant – Investments

Paul Silver, Assistant Attorney General

John Campbell, Arrowstreet Capital, L.P.
Bruce Clarke, Arrowstreet Capital, L.P.
Dan Anderson, Bank of Ireland Asset Management
Trevor Lavin, Bank of Ireland Asset Management
Leona Nicholson, Bank of Ireland Asset Management
Paula Pretlow, Capital Guardian Trust Company
Lionel Sauvage, Capital Guardian Trust Company
Bill Fink, Fidelity Management Trust Company
Art Greenwood, Fidelity Management Trust Company
Jane Webster, Philadelphia International Advisors, L.P.
Andy Williams, Philadelphia International Advisors, L.P.

[Names of other individuals attending the meeting are not included in the minutes but are listed in the permanent record.]

The meeting convened at 9:01 A.M. with Chair Gorton identifying members present.

**ACTIVE CORE INTERNATIONAL EQUITY INVESTMENT MANAGER RFP
FINALIST INTERVIEWS**

Mr. Bruebaker reported that staff and the Callan Managers Search Committee met on December 15, 2003, to evaluate the 16 firms that met minimum qualifications and narrowed the number of firms to be further evaluated to eight. WSIB staff and two of Callan's senior consultants, Janet Becker-Wold and Michael O'Leary, then scored the remaining firms and selected five finalists for interview by the Public Markets Committee. He noted that, with the changes to the international program, approximately \$1.5 billion would be allocated to active core international equity. One of the WSIB's transition managers will be used to transition the assets after new managers are hired.

[Mr. Silver was in attendance at 9:05 a.m.]

Fidelity Management Trust Company (Fidelity)

Messrs. Fink and Greenwood introduced themselves. Mr. Greenwood provided an organizational overview, including ownership structure, office locations, representative client list, assets under management, and regulatory inquiries regarding market timing and late trading policy and procedures in the mutual fund industry.

Mr. Fink reviewed Fidelity's global investment resources and the integration of research into the investment process. Fidelity has over 200 equity research analysts in four investment offices around the world; the analysts cover 30-40 companies. He reviewed the structure of the global research team and Fidelity's research capabilities. He reviewed Fidelity's international growth investment team and investment process, with fundamental bottom-up research driving the regional portfolio construction and asset allocation. Country allocation is determined by managers on a stock-by-stock basis. He reviewed Fidelity's buy discipline: quality, growth, and valuation; and their sell discipline: change in analysis, potential reflected in share price, or better potential elsewhere.

Mr. Fink reviewed the portfolio characteristics versus the benchmark as of September 30, 2003, the investment parameters, and performance.

A question and answer period ensued focused on asset capacity, portfolio structure and construction, and organizational changes.

Philadelphia International Advisors, L.P. (PIA)

Ms. Webster and Mr. Williams introduced themselves. Ms. Webster provided an organizational overview, including ownership structure and partnership with The Glenmede Trust Company; representative client list; assets under management; and PIA's team approach for portfolio management, with four portfolio managers supported by eight global fundamental analysts. She stated that PIA is not involved in any legal or regulatory actions.

Mr. Williams reviewed PIA's investment philosophy. The focus on valuation drives country allocation decisions and securities are selected on a country basis. Risk administration includes geographic and sector diversification and portfolios are fully invested with securities bought for long-term capital appreciation.

Mr. Williams reviewed performance and risk controls; investment process, including security selection, research, and country selection; diversification guidelines; sell discipline; portfolio holdings; characteristics; and sector exposure.

A question and answer period ensued focused on PIA's valuation model, portfolio structure and construction, relationship with The Glenmede Trust Company, performance, and risk controls.

[The Committee recessed at 10:47 a.m. and reconvened at 10:56 a.m.]

Arrowstreet Capital, L.P. (Arrowstreet)

Mr. Clarke introduced himself and Mr. Campbell. He reviewed Arrowstreet's team, organizational structure, and focus on alignment of interests. He stated Arrowstreet had no regulatory matters and only one legal matter involving a former employer, which was resolved amicably.

Mr. Clark reviewed Arrowstreet's team management and investment committee, which is comprised of the research and portfolio management teams. He reviewed assets under management and representative client list and discussed Arrowstreet's philosophy regarding limiting growth to no more than 30 large institutional clients or \$10 billion under management.

Mr. Campbell reviewed the objective, investment style, and investment approach of the international equity strategy. He stated Arrowstreet's approach has a low/negative correlation with other investment managers. He discussed the investment philosophy and the quantitative methods of their investment process. Arrowstreet's integrated return forecasts consist of a diverse set of predictive factors and includes top-down and bottom-up information regarding countries, sectors, baskets, and stocks. Portfolio construction controls the risk profile according to changing market conditions such as forecasts, position limits, transaction costs, and risk estimates.

Mr. Campbell reviewed a snapshot of the All Country World ex. U.S. portfolio, the top five holdings, and portfolio characteristics, as of January 6, 2004. He reviewed the performance of the portfolio, including periods of rotating sector leadership.

A question and answer period ensued focused on data sources used and enhancements made to the data, the size of assets managed for their largest clients, strategic partnership with clients, ownership structure, types of products managed, portfolio turnover, specialized investment approach, and alignment of interests.

[The Committee recessed for lunch at 11:42 a.m. and reconvened at 12:01 p.m.]

Capital Guardian Trust Company (Capital)

Ms. Pretlow introduced herself and Mr. Sauvage. She reviewed Capital's organizational structure, multiple portfolio manager process, assets under management, office locations, and the upcoming retirement of a portfolio manager. She discussed the regulatory inquiry made to a sister company regarding payments to broker dealers as part of the regulatory scrutiny on many firms in the industry. Ms. Pretlow reviewed the investment philosophy of individual decision making it a team environment with research driving the bottom-up construction of the portfolios.

Mr. Sauvage reviewed Capital's investment process, which consists of research, communication, stock selection, and implementation and risk controls.

A question and answer period ensued focused on Capital's multiple portfolio manager process and the weighting of each portfolio manager's portfolio in the total portfolio, compensation structure, risk controls, turnover of analysts/portfolio managers including the upcoming retirement of a portfolio manager and the plan for redistributing those assets, performance, and Capital's plan to manage growth of assets under management.

Bank of Ireland Asset Management (BIAM)

Mr. Lavin, Ms. Nicholson, and Mr. Anderson introduced themselves. Mr. Lavin reviewed the background of BIAM, ownership structure, assets under management, and office locations. He reviewed BIAM's investment team, which is comprised of an asset management team, portfolio construction team, and North American team. He reviewed the regional focus of the asset management team, with the asset managers performing analytics and selecting securities.

Ms. Nicholson reviewed BIAM's investment process and investment philosophy of concentrated portfolios, bottom-up security selection, fundamental analysis, value discipline, and conservative, long-term approach. She reviewed BIAM's stock selection process, the top ten largest holdings in the international equity portfolio, examples of securities held in the portfolio, and sell discipline.

Mr. Lavin reviewed the portfolio characteristics and country distribution of the international equity portfolio as of December 31, 2003, performance, and risk controls. He stated that BIAM has neither regulatory nor legal issues.

Mr. Anderson reviewed controls surrounding investment and operational risk and discussed the client service team.

A question and answer period ensued focused on the investment themes in the portfolio, turnover in asset managers, and capitalization of securities held.

[The Committee recessed at 1:37 p.m. and reconvened at 2:06 p.m.]

Staff and Callan Associates independently indicated their preferences for the top three firms and then ranked the fourth and fifth firms. An in-depth discussion ensued regarding the merits and drawbacks of each of the firms as well as various combinations of managers.

Chair Gorton announced that it was the consensus of the members present to forward this item to the Board for consideration of approval of Arrowstreet Capital L.P., Fidelity Management Trust Company, and Capital Guardian Trust Company for the active core international equity developed markets mandate, subject to continued due diligence and successful negotiation of terms and conditions.

In the event negotiation of terms and conditions are not successful with one of the above listed firms, the fourth and fifth ranked firms are Philadelphia International Advisors, L.P., and Bank of Ireland Asset Management, respectively.

OTHER ITEMS

There being no further business to come before the Public Markets Committee, the meeting adjourned at 3:14 P.M.